



# Annual Report of Estyn's Audit and Risk Assurance Committee

2013-2014



## **1 Purpose**

- 1.1 This report summarises the main work of the Estyn Audit and Risk Assurance Committee during the period 1<sup>st</sup> April 2013 – 31<sup>st</sup> March 2014. The prime role of the Committee is to provide independent advice to HM Chief Inspector and Accounting Officer of Estyn. During the year therefore the Committee has dealt with the strategic processes for risk, control and governance through the results of the internal and external audits as well as self-evaluation processes. The Committee plays a key role in defining aspects of the audit work and monitoring the management responses to the issues raised.
- 1.2 The report describes how the Committee met these responsibilities during 2013/14 and the outcome of the work in relation to further improvements in the governance and management of the organisation. The report is intended to inform the Accounting Officer's Governance Statement that will be included in Estyn's Annual Report and Accounts for 2013/14.

## **2 The Committee during 2013/14**

- 2.1 Membership of the Committee during the year was as follows:

Andrew Bellamy	Non-Executive Director
Haydn E Edwards	Non-Executive Director
Arwel Thomas	Non-Executive Director
(Co-opted from February 2014)	
Rheon Tomos	Non-Executive Director

Ex Officio members included:

Ann Keane	HMCI, Estyn
Simon Brown	Strategic Director, Estyn
Phil Sweeney	Corporate Services Director, Estyn

The terms of reference for the Committee can be found within Estyn's Corporate Governance Framework and the remuneration of members is shown within Estyn's Annual Resource Accounts (both documents are available on Estyn's website).

- 2.2 The External Auditors (Wales Audit Office) and the Internal Auditors (Deloitte LLP) continued to provide effective and valued service to the Committee.
- 2.3 As planned, the Committee met on 1 May 2013, 9 July 2013, 5 November 2013 and 4 February 2014 and these were fully attended by all members. There were no other additional meetings during the year in response to events or issues. Representatives of the external and internal auditors were present at all meetings and Michaela Benjamin (Estyn) provided secretarial support for the Committee. Other Estyn staff members attended the Committee when matters related to their responsibilities were discussed and senior Estyn staff attended some meetings as observers.

- 2.4 The standard of the reports, management response, tracking of recommendations and the contribution of all Committee members were constantly noted. The Committee members, functioning well as a group, continued to pose pertinent and timely questions. Members of the Committee have the requisite expertise and experiences and these were enhanced during the year when a new Non-Executive Director (Mr Arwel Thomas, former Deputy Director Corporate Governance and Assurance in the Welsh Government) joined the Committee.
- 2.5 The Committee has during the year continued to operate electronically with all the papers presented to members via the Estyn extranet or by e-mail attachments. Laptops have been available for all members in the meetings. Those present evaluated all meetings and generally the response was positive. Such end of meetings feedback, a feature of all Estyn Governance meetings, enable all present to express their views and result in quality improvements.

### 3 Control environment

#### 3.1 Internal Audit

- 3.1.1 During 2013/14 the Audit Committee reviewed the following reports provided by the Internal Auditor (Deloitte LLP).

Reports	Assurance rating	Number of recommendations (priority rating)
<b>May 2013 meeting:</b>		
1 Purchasing and Payments	Full	2 (low)
2 Budgets, General Ledger and Accounting	Substantial	4 (low)
3 Quality Assurance – Additional Inspectors	Full	1 (low)
4 Cash Management, Revenue and Receivables	Full	None
5 Asset and Inventory Management	Substantial	2 (low)
6 Corporate Governance	Full	None
7 Risk Management	Full	1 (low)
<b>November 2013 meeting:</b>		
1 Human Resources: New Appointments, & Staff Performance (follow-up)	Substantial	3 (low)
<b>February 2014 meeting:</b>		
1 Complaints Management	Full	1 (low)

In all the meetings, the internal auditors provided reports on the progress being made on implementing audit recommendations and this work was also valued by the Committee. The internal auditors also advised the Committee of two unannounced 'spot-check' visits that had taken place during August

2013 and December 2013 covering both financial and non-financial systems. No significant issues were identified. The internal audit work has been performed in compliance with the Public Sector Internal Audit Standards.

- 3.1.2 The nine reports received by the Audit Committee during 2013/14 included **six** with **full assurance** and **three** with **substantial assurance** rating. A total of 14 low priority rating recommendations were presented. The Committee noted the thoroughness of the recommendations and the open and positive response by Estyn management.
- 3.1.3 In the July 2013 meeting, the Internal Auditor presented a report on their work for the period 1<sup>st</sup> April 2012 to 31<sup>st</sup> March 2013. Eight audit assignments were undertaken during this period. **Five** reports provided **full assurance** and **three** gave **substantial assurance**. A total of 16 recommendations and all of low priority status were presented. The report concluded that Estyn had effective risk management control and governance processes to manage the achievements of the organisation's objectives. Deloitte also noted that **the overall assessment for both Governance and risk management was full assurance**.
- 3.1.4 The Internal Audit Strategy Plan was discussed during the February 2013 meeting. This sets out the internal audit activity for the period 2013/14 and is still flexible in order to adapt to the emerging changes in the organisation and its environment. Appendix 1 shows the programme of internal audits and the year in which reports were reviewed by the Audit Committee for the past three years, and includes audit reports reviewed at the first committee meeting of 2014/15.
- 3.1.5 The tracking system for the recommendations in each audit report has continued to be used during the year and includes information such as date for completion for specific actions, ownership, progress reports by management and whether the actions had been completed by Estyn and verified by Internal Audit. This enhanced tracking system has been well received by users and the Audit and Risk Assurance Committee. It is pleasing to note that the overwhelming majority of the recommendations are signed off within the agreed time and that explanations for any slippages are reasonable and pragmatic.
- 3.1.6 The quality of the audit work and that of the Committee has been evaluated during the year using several different methods:
- End of meeting evaluation
  - Tracking of the actions agreed in each Committee meeting
  - Self-assessment checklist completed by members
  - Self-evaluation by the Committee using checklist in the National Audit Office Good Practice Document and reference to Deloitte's Audit Committee effectiveness checklist
  - Annual appraisal of Non-Executive Directors by HMCI/Accounting Officer
  - Annual review of Terms of Reference
  - Annual meeting with the Internal and External Auditors
  - Discussion following Chairs of Audit and Risk Committee meetings.

These evaluations led to minor changes in the work of the Committee, improved communications and training needs being identified. With the growing emphasis on risk assurance, and following a discussion on a National Audit Office (NAO) factsheet (2013 edition of HM Treasury's Audit and Risk Assurance Committee Handbook), the Committee changed to its current name (Audit and Risk Assurance).

## 3.2 External Audit

- 3.2.1 The WAO presented a strategy in the May 2013 meeting for the auditing of the 2012/13 Estyn financial statement. This document clarified the relative responsibilities of Estyn and the WAO. The fee structure for the services of the External Auditors has again been discussed during the year and the Committee expects further and timely information in future years.
- 3.2.2 The Audit work for 2012/13 accounts was reviewed in the July 2013 meeting of the Audit and Risk Assurance Committee. The Wales Audit Office (WAO) indicated, following the ISA 260 report to those charged with governance, that they intended to **issue an unqualified audit opinion** and were satisfied for HMCI as Accounting Officer to sign off the 2012/13 accounts. They also noted that the **accounts had been delivered to deadline and to quality standards**.
- 3.2.3 In November 2013, the External Auditor presented the Management Letter to the Committee confirming that the accounts had been signed off in time, with no unadjusted misstatements. **No material weaknesses in the accounting and internal controls were identified** during the audit.

## 4 Co-operation between Internal and External Audit

A statement was presented to the February 2013 meeting of the Audit Committee showing how the Internal and External Auditors are communicating and working together to minimise the level of any duplicated work. Protocols and relative roles were set out in the statement and this is reviewed annually.

The Committee is satisfied with the quality of service provided by the Internal and External Auditors.

## 5 Corporate Governance

- 5.1 Throughout the year, the Audit and Risk Assurance Committee has continued to operate in accordance with the **code of good practice for Corporate Governance** and key documents have been shared over recent years and used in the course of the work. The NAO **Good Practice Guide (Helping your Audit Committee to add value)** was used to identify improvements.

- 5.2 The terms of reference of the Audit Committee has been circulated to all members with the papers in order to ensure that the Committee is focused on its prime responsibilities. In November 2013, Estyn's Corporate Governance Framework was reviewed and the Committee's Terms of Reference was updated.
- 5.3 The Governance Statement, developed during the year, has become a central part of the Committee's deliberations and provides detail of Estyn's governance, risk management and internal controls. The Governance Statement has been on the agenda of most of the meetings during 2013/14. In recent months, the Corporate Services Director has developed a grid entitled "Estyn assurance framework arrangements" and this has also been an important guide to the Committee's work.
- 5.4 The annual Committee self-evaluation, with the support of the Internal Auditor, has resulted in many improvements over the years. During the meeting in May 2013 the members noted the progress made and used the NAO checklist to identify further development needs. No specific training or development requirements for members were identified at this session but throughout the year there has been a number of learning opportunities for members, including attendance of Estyn's Annual Staff conference and various presentations made throughout the year by Estyn officers to non-executive directors. Training and development needs are further discussed as part of the annual appraisal process conducted with HMCI. The self-evaluation exercise did raise two operational points:
- the Chair to discuss with the Chief Inspector the benefits of inviting key Estyn staff as observers to the Committee; and
  - the members to consider whether the Annual Report of the Committee addressed the eight points of question 59 of the NAO questionnaire. These include the comprehensiveness, reliability and integrity of the assurances given; their implications for their management of risk; issues for the Governance statement and the quality of the Auditors.
- 5.5 The standing item on legal and regulatory updates from the Internal and External Auditors ensures that the members are fully apprised on any changes affecting Estyn's legal, reporting or compliance position, in so far as it effects the work of the Committee. HMCI provides an oral update in each meeting on the developments within Estyn and any external changes that might have a bearing on the Committee's work and responsibilities.

## **6 Risk and fraud**

- 6.1 The Strategic and Corporate Risk Registers were received in the November 2013 meeting and several modifications were made following suggestions by members. The Committee remains satisfied that Estyn has an appropriate Risk Management Policy which is overseen by the Board and that its risk register adequately reflects the risks that Estyn faces and their likely impact. The risk register also notes the management actions that have been taken to mitigate and eliminate the risks. As Committee members also serve as non-executive directors on the Estyn Board they

have high visibility of risks and direct involvement in discussions of risk management strategies and actions.

- 6.2 There were no incidents of fraud reported to the Committee during 2013-14; however, a case involving fraudulent use of an Estyn telephone line by an unknown external party arose at the end of the year. The Committee discussed this case during its April 2014 meeting and was satisfied that appropriate action had been taken by Estyn management.

## 7 Sharing good practice

During the year meetings have been held with the Chairs of the Audit and Risk Committees of the Welsh Government Sponsored Bodies (WGSB) in order to discuss issues of common interest and share good practice. The first meeting (25th April 2014) discussed the governance statements and financial reporting whilst the second meeting (5<sup>th</sup> November 2014), hosted by Estyn, dealt with Audit and Risk Committee Annual Reports and good practice in Governance. Feedback from these two meetings has been presented to the Committee.

## 8 Conclusion

The Committee has operated to a high standard during the year and has received appropriate, regular and timely information about the production of Estyn's resource accounts and in particular about Estyn's control environment. **The Committee remains satisfied that the Accounting Officer can be substantially assured that Estyn's control, risk and governance position in 2013/14 provided a sound and reasonable basis for her completion of the Governance Statement.**

## 9 Acknowledgements

I am grateful to all those attending the Committee for their work and contribution during the year. The work of Phil Sweeney and Michaela Benjamin supported by other staff, have been central to our work and their contributions valued. I am also grateful to Matthew Coe and Phil Pugh from the Wales Audit Office and Mr Ian Howse and Katherine Rankin from Deloitte for their support and advice during the year.

Dr Haydn E Edwards  
Chair of the Estyn Audit Committee  
June 2014

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<b>Appendix1: Internal audits undertaken and/or reviewed by Audit Committee (3-year programme)</b>							
<b>Audit area</b>	<b>Audit programme</b>	<b>Committee review</b>	<b>Level of assurance</b>	<b>High priority</b>	<b>Medium priority</b>	<b>Low priority</b>	<b>Total</b>
Corporate Governance and Risk Management (Follow-up) & Strategic Management	2013-14	2014-15	Full	-	-	-	-
Health & Safety: Induction	2013-14	2014-15	Substantial	-	1	2	3
Health & Safety: Risk Assessment	2013-14	2014-15	N/A – Advisory	N/A	N/A	N/A	N/A
Budgets, General Ledger & Accounting	2013-14	2014-15	Substantial	-	-	1	1
Cash Management, Revenue and Receivables	2013-14	2014-15	Substantial	-	1	1	2
Payroll	2013-14	2014-15	Substantial	-	-	1	1
Purchasing and Payments	2013-14	2014-15	Substantial	-	-	2	2
Complaints Management	2013-14	2013-14	Full	-	-	1	1
HR: Recruitment, New Appointments, & Staff Performance (Follow-up)	2013-14	2013-14	Substantial	-	-	3	3
Budgets, General Ledger and Accounting	2012-13	2013-14	Substantial	-	-	4	4
Purchasing and Payments	2012-13	2013-14	Full	-	-	2	2
Quality Assurance of Additional Inspectors	2012-13	2013-14	Full	-	-	1	1
Assets and Inventories	2012-13	2013-14	Substantial	-	-	2	2
Cash Management, Revenues and Receivables	2012-13	2013-14	Full	-	-	-	-
Risk Management	2012-13	2013-14	Full	-	-	1	1
Corporate Governance	2012-13	2013-14	Full	-	-	-	-



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Data Protection Act, Freedom of Information Act, and, Environmental Reporting Regulations	2012-13	2012-13	Substantial	-	-	6	<b>6</b>
Staff Performance Management	2011-12	2012-13	N/A – advisory	N/A	N/A	N/A	<b>N/A</b>
Quality Assurance of HMI Led Inspections	2011-12	2012-13	Full	-	-	1	<b>1</b>
Corporate Governance & Risk Management	2011-12	2012-13	N/A – follow up	-	-	-	-
IT General Controls	2011-12	2012-13	Substantial	-	1	1	<b>2</b>
Policy & Procedures for Managing Attendance	2011-12	2011-12	N/A – advisory	N/A	N/A	N/A	<b>N/A</b>
Financial Systems	2011-12	2011-12	Substantial	-	1	2	<b>3</b>
Travel, Subsistence Expenses	2011-12	2011-12	Substantial	-	1	4	<b>5</b>
Procurement & Contract Controls	2011-12	2011-12	Substantial	-	2	5	<b>7</b>
Quality Assurance of Contracted-out Inspections	2010-11	2011-12	Substantial	-	-	3	<b>3</b>
Governance & Risk Management	2010-11	2011-12	Substantial	-	1	2	<b>3</b>
Financial Systems	2010-11	2011-12	Substantial	-	2	6	<b>8</b>
Accommodation	2010-11	2011-12	N/A – advisory	N/A	N/A	N/A	<b>N/A</b>
HR & Payroll	2010-11	2011-12	Substantial	-	-	2	<b>2</b>
Home working arrangements	2010-11	2011-12	Substantial	-	-	2	<b>2</b>